UNITED STATES OF AMERICA
BEFORE THE
DEPARTMENT OF ENERGY

	)
Interstate Transmission System;	)
Electric Reliability Issues;	)
Notice of Inquiry	)
	)

COMMENTS OF
H.Q. ENERGY SERVICES (U.S.), INC.

Pursuant to the Department of Energy's ("DOE") Notice of Inquiry on the Interstate Transmission System; Electric Reliability Issues ("NOI"), H.Q. Energy Services (U.S.), Inc. ("HQUS") respectfully submits these comments in the above-captioned proceeding.

I. COMMUNICATIONS

All correspondence and communications concerning these comments should be sent to the following persons at the addresses shown:

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II. INTEREST OF HQUS

HQUS is a power marketer with its corporate headquarters in Coraopolis, Pennsylvania. HQUS is an affiliate of Hydro-Québec, a Crown corporation in Québec. HQUS sells power into United States power markets at market-based rates in the following reliability regions: the Northeast Power Coordinating Council ("NPCC"); the East Central Area Reliability

Coordination Agreement ("ECAR") and the Mid-Atlantic Area Council ("MAAC"). As a power marketer in these reliability regions, HQUS will be affected by DOE's actions in this proceeding.

III. COMMENTS

Our society depends heavily on electricity in its day-to-day activities. As DOE is well aware, maintaining the reliability of the electrical systems of North America and the continuity of supply is of paramount importance. In the aftermath of the northeast blackout of 1965, the electric industry formed organizations[1] whose main objective is to maintain reliability through a series of standards and coordination criteria. Today, the operation of the electrical systems essentially follows the same standards originally drafted by these organizations, even though conditions on most systems have changed substantially since these rules were promulgated. Moreover, membership in these organizations is voluntary and there is no legal obligation to follow these industry standards. As the electricity markets restructure and become more competitive, this system of voluntary self–regulation may become less and less effective.

The electric utility industry is undergoing a series of changes as a result of the Energy Policy Act of 1992 and its related Federal Energy Regulatory Commission ("FERC") orders. Trade is increasing. More companies now have a continental scope due to sales of portions of their assets in one region and corresponding purchases in other regions. There is a need to standardize the rules that govern this inter-regional trade throughout the marketplace. Standardization through mandatory and uniform implementation of reliability rules will increase liquidity in the market.

In the increasingly competitive markets that are developing in North America, the imperative to maximize economic value may lead to incentives to undermine the minimum level

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[1] The NPCC was created in 1966. The National Electric Reliability Council (now the North American Electric Reliability Council ("NERC")) was created in 1968.

of reliability necessary to maintain system reliability. Such incentives could overwhelm any discipline inherent in the old system of voluntary self-regulation which NERC and the ten regional reliability councils managed so well for several decades. As we move into a competitive future, mandatory reliability rules will be required to protect the reliability of the bulk power system.

Reliability rules will also impact the ability to make transactions in the marketplace. There is no doubt that many of the reliability rules that currently exist are required and must be followed by all parties in order to maintain reliability. It is also critical that these reliability rules be maintained at appropriate levels and constantly modernized to meet changing market and system conditions. Reliability rules should not be used by transmission incumbents, deliberately or inadvertently, as barriers to competition from new market players. This will require that the rules be properly conceived and developed, fairly administered by an objective body, and not too parochial for the expanding scope of regional markets.

We believe that the new structure proposed in legislation introduced into the 106th Congress, namely S. 2071 and H.R. 4941, provides an appropriate basis for developing an effective and dynamic regulatory structure for reliability in the United States, subject to FERC's ultimate regulatory oversight, and is the best basis for achieving this outcome. We would also support improving the existing harmonization of reliability rules between different control areas in Canada and the United States through organizations such as NERC.

To the extent that DOE's proposal to initiate the rulemaking discussed in this proceeding will facilitate achievement of these outcomes, and will help to create the type of regulatory structure for reliability that we believe is necessary, we are fully supportive of this initiative. We will be happy to provide detailed comments should the initiative move forward to the rulemaking stage, or, if DOE prefers, to provide informal comments on specific matters prior to that time.

Respectfully submitted,

H.Q. ENERGY SERVICES (U.S.), INC.

By: _____

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